

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Union City	County Branch
Fiscal Year End March 31, 2006	Opinion Date June 23, 2006	Date Audit Report Submitted to State August 11, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

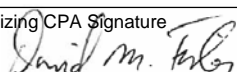
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 517-787-6507		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name David M. Fisher, CPA		License Number 10337

Village of Union City, Michigan

FINANCIAL STATEMENTS

**For The Fiscal Year Ended
March 31, 2006**



REHMANN ROBSON

Certified Public Accountants

VILLAGE OF UNION CITY, MICHIGAN

For the Fiscal Year Ended March 31, 2006

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



INDEPENDENT AUDITORS' REPORT

June 23, 2006

Village Council
Village of Union City
Union City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **VILLAGE OF UNION CITY, MICHIGAN**, as of and for the year ended March 31, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Union City, Michigan, as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the major funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION and ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Village of Union City's annual Financial Report presents the Management Discussion and Analysis ("MDA") of the Village's financial activities during the fiscal year ended March 31, 2006. The analysis focuses on the Village's financial performance as a whole. It is intended to be read as part of the Village's financial statements, which immediately follow this section.

The Village of Union City is in the second year of implementing new reporting standards with significant changes in content and structure of its financial statements. This is the first year by which the information is comparable to prior years. In future years, comparisons will be more meaningful and will go further in explaining the Village's financial position and results of operations.

FINANCIAL HIGHLIGHTS

- The assets of the Village of Union City exceeded liabilities at March 31, 2006 by \$6,313,299. Of this amount \$1,643,318 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The net assets of the Village decreased by \$93,477 during the year. Of this amount the net assets of governmental activities decreased by \$82,568 and the net assets of business-type activities decreased by \$10,909.

USING THIS REPORT

The annual report consists of a series of financial statements including other requirements as follows:

1. MDA introduces the basic financial statements and provides an analytical overview of the Village's financial activities.
2. Government-wide Financial Statement ("GFS") consists of a Statement of Net Assets ("SNA") and a Statement of Activities ("SOA"). These provide information about the activities of the Village as a whole and represent an overall view of the Village's finances.
3. Fund Financial Statements ("FFS") tell how governmental services were financed in the short term as well as what remains for future spending. FFS also report the Village's operations in more detail than the GFS by providing information about the most significant funds.
4. Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
5. Required supplementary information, other than MDA, provides information about the required budgetary comparison information.

REPORTING THE VILLAGE AS A WHOLE

The SNA, the SOA and the GFS report information about the Village as a whole using accounting methods similar to those used by private sector companies. The SNA includes all of the Village's assets and liabilities. All of the current year's revenues and expenses are accounted for in the SOA regardless of when cash is received or paid.

One of the most important questions asked about the Village's finances is: Is the Village as a whole better or worse off as a result of the year's activities? The SNA and the SOA report information about the Village as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by most private sector companies. The two statements report the Village's net assets,

MANAGEMENT'S DISCUSSION AND ANALYSIS

which are the difference between assets and liabilities, as one way to measure the Village's financial health, or financial position. Over time, increases or decreases in the Village's net assets are one indicator of whether its financial health is improving or deteriorating. Additional factors such as changes in the Village's property tax base and the condition of the Village's infrastructure are also important in making this decision.

In the SNA and the SOA, we have divided the Village into two kinds of activities:

1. Governmental Activities - Most of the Village's basic services are reported here, such as police, fire, streets, parks, general government and capital projects. Property tax and state and federal grants finance most of these activities.
2. Business-Type Activities - This activity includes the water, electric and sanitary sewer systems, which are financed primarily by user charges.

REPORTING THE VILLAGE'S MOST SIGNIFICANT FUNDS

The FFS provide detailed information about individual, significant funds, not the Village as a whole. Some funds are required to be established by state law and by bond covenants. The Village may establish other funds to account for and manage revenue and expenditures that are related to specific projects (i.e. capital improvements), grants or other purposes (i.e. tax increment financing).

The Village has two fund types:

1. Governmental Funds - The Governmental Funds account of most of the Village's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include the General Fund; Special Revenue Funds such as Major Street; Local Street and Revolving Loan Fund. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The government fund statements provide a detailed, short-term view of the Village's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs.

The financial statements required for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2. Proprietary Funds - Proprietary Funds account for the Village's enterprise funds. These funds report services for which the Village charges customers for the service it provides. Proprietary funds are reported in the same way that all activities are reported in the SNA and the SOA. The major difference between the proprietary fund and the business-type activities included in the government-wide statement is the detail and additional information, such as cash flows, provided in the proprietary fund statements.

The enterprise fund includes the Electric, Water, and Sewer Funds, considered to be major funds of the Village. The Village is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The financial statements required for proprietary funds include a SNA, a statement of revenues, expenses, and changes in fund net assets and a statement of cash flows.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT- WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as useful indicator of financial position. The following analysis shows the Village's total net assets at March 31, 2006 as compared to the March 31, 2005 fiscal year.

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$721,445	\$819,848	\$2,229,685	\$2,288,151	\$2,951,130	\$3,107,999
Capital assets, net	746,116	737,806	5,637,562	5,649,545	6,383,678	6,387,351
Total assets	1,467,561	1,557,654	7,867,247	7,937,696	9,334,808	9,495,350
Current liabilities	26,688	36,215	233,378	224,839	260,066	261,054
Long term liabilities	48,531	46,529	2,712,912	2,780,991	2,761,443	2,827,520
Total liabilities	75,219	82,744	2,946,290	3,005,830	3,021,509	3,088,574
Net assets:						
Invested in capital assets, net of related debt	746,116	737,806	3,001,562	2,943,545	3,747,678	3,681,351
Restricted	491,575	523,917	430,728	146,673	922,303	930,418
Unrestricted	154,651	213,187	1,488,667	1,841,648	1,643,318	1,795,007
Total Net Assets	\$1,392,342	\$1,474,910	\$4,920,957	\$4,931,866	\$6,313,299	\$6,406,776

MANAGEMENT'S DISCUSSION AND ANALYSIS

The largest portion of the Village's net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Total unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements is approximately \$1,643,000, which is a decrease from the last fiscal year of approximately \$152,000.

The following analysis provides the changes in the net assets for the Village's governmental and business-type activities:

	Governmental Activities		Business-type Activities		Total	Total
	2006	2005	2006	2005	2006	2005
Revenues:						
Charges for Services	\$93,875	\$92,516	\$2,389,617	\$2,257,126	\$2,483,492	\$2,349,642
Operating Grants & Contributions	<u>8,788</u>	<u>59,835</u>	<u>8,196</u>	<u>10,250</u>	<u>16,984</u>	<u>70,805</u>
Total Revenues	102,663	152,351	2,397,813	2,267,376	2,500,476	2,411,447
Expenses:						
General Government	253,679	224,616			253,679	224,616
Public Works	241,812	320,328			241,812	320,328
Public Safety	353,491	323,473			353,491	323,473
Electric			1,742,879	1,746,302	1,742,879	1,746,302
Sewer			451,073	474,229	451,073	474,229
Water			<u>228,770</u>	<u>255,498</u>	<u>228,770</u>	<u>255,498</u>
Total Expenses	848,982	868,417	2,422,722	2,476,029	3,271,704	3,344,446
Net revenue (expense)	(746,319)	(716,066)	(24,909)	(208,653)	(771,228)	(924,719)
General Revenues:						
Property Taxes	307,384	306,104			307,384	306,104
State Shared Revenue	341,566	354,580			341,566	354,580
Unrestricted Investment Earnings	1,281	887			1,281	887
Grants and contributions	<u>27,520</u>	<u>42,247</u>			<u>27,520</u>	<u>42,247</u>
Total General Revenues	677,751	703,818			677,751	703,818
Transfers – Internal activities	(14,000)		14,000			
Decrease in Net Assets	(82,568)	(12,248)	(10,909)	(208,653)	(93,477)	(220,901)
Net Assets 3-31-05	<u>1,474,910</u>	<u>1,487,158</u>	<u>4,931,866</u>	<u>5,140,519</u>	<u>6,406,776</u>	<u>6,627,677</u>
Net Assets 3-31-06	<u>\$1,392,342</u>	<u>\$1,474,910</u>	<u>\$4,920,957</u>	<u>\$4,931,866</u>	<u>\$6,313,299</u>	<u>\$6,406,776</u>

Governmental activities decreased net assets by approximately \$ 83,000 primarily due to general fund ongoing expenditures exceeding ongoing and flat revenues, and also due to major street projects undertaken during the fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business type net assets decreased by approximately \$11,000 primarily due to sewer fund expenses exceeding operating revenues.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the Village of Union City completed its year, its governmental funds reported a total fund balance of \$682,771, which is \$81,250 less than the \$764,021 total fund balances at March 31, 2006.

- The General Fund, the operating fund for the Village, ended FY05-06 with a \$191,196 balance compared to the prior year ending fund balance of \$240,104, due primarily to ongoing expenditures exceeding revenues. State shared revenues have decreased each year over the past three fiscal years.
- Major Street Fund Balance decreased by \$35,352 due to the completion of various projects in 2006.
- Local Street Fund Balance increased by \$2,250, which included a \$14,000 transfer to the Electric fund.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

Net assets of the business – type activities decreased by approximately \$11,000 during the year. This resulted from ongoing expenses exceeding ongoing revenues in the three utility funds. All three utility funds still have adequate working capital amounts at March 31, 2006, however.

The Electric, Sewer and Water Funds, which account for the operation and maintenance of the Village's electric, water and sewer systems, ended FY05-06 with a \$4,920,957 net asset balance compared to prior year ending net asset balance of \$4,931,866. Operating results include depreciation expense of \$210,480, which is a non-cash expense of the three funds.

BUDGETARY HIGHLIGHTS

During the year ended March 31, 2006, the Village did not amend the budget of the general fund or other budgetary funds since revenue and expenditures tracked favorably during the year with the original enacted budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Village's investment in capital assets, including land, buildings and improvements, equipment, electric systems, water systems, sewer systems, roadways and other infrastructure represents the value of the resources utilized to provide services to citizens. Capital assets for governmental activities totaled \$746,116 (net of accumulated depreciation) at March 31, 2006. Capital assets for business-type activities totaled \$5,637,562 (net of accumulated depreciation) at March 31, 2006. See the notes to the financial statements for more information about the Village's capital assets. The major capital outlays for governmental activities during the year included the costs of street improvements and parking lot upgrades. For business-type activities, the Village purchased new meter readers and incurred costs of new water and sewer mains in connection with various street projects.

LONG-TERM DEBT

At year end the Village had \$2,636,000 in outstanding revenue bonds. The Village reduced its debt through scheduled installment payments of \$70,000 during the year ended March 31, 2006. Additional information on the Village's long-term debt can be found in Note II-G in the accompanying financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS

Elected and appointed officials must consider many factors in the preparation and the adoption of the Village's annual budget. One important factor affecting the Village's budget is the State of Michigan's fiscal health because a significant source of revenue for the Village's General Fund is state shared revenue, a portion of which is subject to state legislative approval. Because of the State's recent and continuing budget problems the Village has seen a major reduction in state shared revenues.

By comparison, the Village received state shared revenues in the amount of approximately \$234,000 in fiscal year ended March 31, 2004, \$214,000 in fiscal year ended March 31, 2005, \$209,000 in fiscal year ended March 31, 2006 and it is projected that the Village will receive less the amount received in fiscal year March 31, 2006 for the fiscal year ending March 31, 2007.

CONTACTING THE VILLAGE'S FINANCIAL MANAGEMENT

This financial report is designed to present citizens, taxpayers, customers, investors, creditors and other interested parties with a general overview of the Village's finances and operating activities. If you have any questions or require additional information please contact the Village of Union City, 208 N. Broadway Street, Union City, MI 49094.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Village of Union City
Statement of Net Assets
March 31, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 667,201	\$ 948,432	\$ 1,615,633
Receivables, net	67,085	492,896	559,981
Internal balances	(26,435)	26,435	-
Inventory	13,594	147,286	160,880
Land investment	-	5,692	5,692
Investment in joint venture	-	608,944	608,944
Capital assets not being depreciated	16,402	117,696	134,098
Capital assets being depreciated, net	729,714	5,519,866	6,249,580
 Total assets	 1,467,561	 7,867,247	 9,334,808
Liabilities			
Accounts payable and accrued expenses	19,684	225,466	245,150
Accrued wages	7,004	7,912	14,916
Long-term liabilities:			
Due within one year	48,531	98,099	146,630
Due in more than one year	-	2,614,813	2,614,813
 Total liabilities	 75,219	 2,946,290	 3,021,509
Net assets			
Invested in capital assets, net of related debt	746,116	3,001,562	3,747,678
Restricted for special purposes	491,575	430,728	922,303
Unrestricted	154,651	1,488,667	1,643,318
 Total net assets	 \$ 1,392,342	 \$ 4,920,957	 \$ 6,313,299

The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Activities
For the Year Ended March 31, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Primary government				
Governmental activities:				
General government	\$ 253,679	\$ 33,505	\$ -	\$ (220,174)
Public works	241,812	56,512	8,788	(176,512)
Public safety	353,491	3,858	-	(349,633)
Total governmental activities	<u>848,982</u>	<u>93,875</u>	<u>8,788</u>	<u>(746,319)</u>
Business-type activities:				
Electric	1,742,879	1,804,022	7	61,150
Sewer	451,073	348,330	5,430	(97,313)
Water	228,770	237,265	2,759	11,254
Total business-type activities	<u>2,422,722</u>	<u>2,389,617</u>	<u>8,196</u>	<u>(24,909)</u>
 Total primary government	 <u>\$ 3,271,704</u>	 <u>\$ 2,483,492</u>	 <u>\$ 16,984</u>	 <u>\$ (771,228)</u>

continued...

Village of Union City
Statement of Activities (Concluded)
For the Year Ended March 31, 2006

Functions/Programs	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (746,319)	\$ (24,909)	\$ (771,228)
General revenues:			
Property taxes	307,384	-	307,384
State shared revenue	341,566	-	341,566
Grants and contributions not restricted to particular programs	27,520	-	27,520
Unrestricted investment earnings	1,281	-	1,281
Transfers - internal activities	(14,000)	14,000	-
 Total general revenues and transfers	 663,751	 14,000	 677,751
 Change in net assets	 (82,568)	 (10,909)	 (93,477)
 Net assets, beginning of year	 1,474,910	 4,931,866	 6,406,776
 Net assets, end of year	 <u>\$ 1,392,342</u>	 <u>\$ 4,920,957</u>	 <u>\$ 6,313,299</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

**Village of Union City
Balance Sheet
Governmental Funds
March 31, 2006**

	Major funds			Nonmajor Fund	
	General	Major Streets	Local Streets	Revolving Loan	Total
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 63,188	\$ 134,449	\$ 203,742	\$ 37,456	\$ 438,835
Accounts receivable	2,713	-	1,108	-	3,821
Special assessments receivable	11,986	-	-	-	11,986
Inventory	-	6,797	6,797	-	13,594
Due from other governments	27,080	17,480	6,718	-	51,278
Due from other funds	119,401	26,885	27,496	28,149	201,931
<u>TOTAL ASSETS</u>	\$ 224,368	\$ 185,611	\$ 245,861	\$ 65,605	\$ 721,445
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable	\$ 15,433	\$ 3,440	\$ 811	\$ -	\$ 19,684
Salaries payable	5,753	932	319	-	7,004
Deferred revenue	11,986	-	-	-	11,986
Total liabilities	33,172	4,372	1,130	-	38,674
Fund balances					
Unreserved - undesignated	191,196	181,239	244,731	-	617,166
Unreserved, reported in nonmajor special revenue fund	-	-	-	65,605	65,605
Total fund balances	191,196	181,239	244,731	65,605	682,771
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 224,368	\$ 185,611	\$ 245,861	\$ 65,605	\$ 721,445

The accompanying notes are an integral part of these financial statements.

Village of Union City
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
March 31, 2006

Fund balances - total governmental funds	\$ 682,771
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	1,801,993
Deduct: accumulated depreciation	(1,055,877)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance

Add: deferred special assessment receivables	11,986
--	--------

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: compensated absences	<u>(48,531)</u>
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Net assets of governmental activities	<u><u>\$ 1,392,342</u></u>
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The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended March 31, 2006

	Major funds			Nonmajor Fund	
	General	Major Streets	Local Streets	Revolving Loan	Total
Revenue					
Taxes	\$ 230,025	\$ -	\$ 84,985	\$ -	\$ 315,010
Licenses and permits	685	-	-	-	685
Intergovernmental	209,462	95,458	36,646	-	341,566
Charges for services	21,929	-	-	-	21,929
Fines and forfeitures	3,858	-	-	-	3,858
Interest and rents	19,879	2,751	5,278	760	28,668
Other revenue	76,324	-	-	-	76,324
Total revenue	562,162	98,209	126,909	760	788,040
Expenditures					
General government	260,822	-	-	-	260,822
Public safety	315,990	-	-	-	315,990
Public works	34,258	133,561	110,659	-	278,478
Total expenditures	611,070	133,561	110,659	-	855,290
Revenue over (under) expenditures	(48,908)	(35,352)	16,250	760	(67,250)
Other financing sources (uses)					
Transfer (out)	-	-	(14,000)	-	(14,000)
Total other financing sources (uses)	-	-	(14,000)	-	(14,000)
Net change in fund balances	(48,908)	(35,352)	2,250	760	(81,250)
Fund balances, beginning of year	240,104	216,591	242,481	64,845	764,021
Fund balances, end of year	\$ 191,196	\$ 181,239	\$ 244,731	\$ 65,605	\$ 682,771

The accompanying notes are an integral part of these financial statements.

Village of Union City
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended March 31, 2006

Net change in fund balances - total governmental funds	\$ (81,250)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	97,679
Deduct: depreciation expense	(89,369)

The receipt of a long-term receivable represents revenue in the fund financial statements, but is reported as a reduction of the receivable in the statement of activities.

Deduct: payments received on long-term receivables	(7,626)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in the accrual for compensated absences	<u>(2,002)</u>
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Change in net assets of governmental activities	<u><u>\$ (82,568)</u></u>
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The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Revenue, Expenditures, and Changes
in Fund Balance - Budget and Actual
General Fund
For the Year Ended March 31, 2006

	Original/ Amended Budget	Actual	Over (Under) Budget
Revenue			
Taxes:			
Property taxes - general	\$ 202,000	\$ 207,152	\$ 5,152
Assessments- sidewalks	10,000	22,873	12,873
Total taxes	212,000	230,025	18,025
Licenses and permits	600	685	85
Intergovernmental:			
State revenue sharing	208,000	209,462	1,462
Charges for services - fire	41,100	21,929	(19,171)
Fines and forfeitures	-	3,858	3,858
Interest and rents:			
Interest earned	1,000	1,280	280
Rental income	500	5,259	4,759
Equipment rentals	13,000	13,340	340
Total interest and rentals	14,500	19,879	5,379
Other revenue	78,412	76,324	(2,088)
Total revenue	554,612	562,162	7,550

continued...

Village of Union City
Statement of Revenue, Expenditures, and Changes
in Fund Balance - Budget and Actual (Concluded)
General Fund
For the Year Ended March 31, 2006

	Original/ Amended Budget	Actual	Over (Under) Budget
Expenditures			
General government:			
Administration	\$ 156,940	\$ 189,378	\$ 32,438
Treasurer	8,250	8,235	(15)
Village Council	5,000	3,080	(1,920)
Clerk	45,200	45,018	(182)
Nondepartmental	15,000	14,434	(566)
Other	1,300	677	(623)
Total general government	<u>231,690</u>	<u>260,822</u>	<u>29,132</u>
Public safety			
Police	304,400	264,563	(39,837)
Fire	58,200	51,427	(6,773)
Total public safety	<u>362,600</u>	<u>315,990</u>	<u>(46,610)</u>
Public works			
Streets	<u>29,100</u>	<u>34,258</u>	<u>5,158</u>
Total expenditures	<u>623,390</u>	<u>611,070</u>	<u>(12,320)</u>
Revenue over (under) expenditures	(68,778)	(48,908)	19,870
Other financing sources (uses)			
Transfers in	<u>48,850</u>	-	<u>(48,850)</u>
Net change in fund balance	(19,928)	(48,908)	(28,980)
Fund balance, beginning of year	<u>240,104</u>	<u>240,104</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 220,176</u></u>	<u><u>\$ 191,196</u></u>	<u><u>\$ (28,980)</u></u>

The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Revenue, Expenditures,
and Changes in Fund Balance - Budget and Actual
Major Streets Special Revenue Fund
For the Year Ended March 31, 2006

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenue				
Intergovernmental	\$ 94,500	\$ 94,500	\$ 95,458	\$ 958
Interest	1,500	1,500	2,751	1,251
Other	500	500	-	(500)
Total revenue	96,500	96,500	98,209	1,709
Expenditures				
Public works	169,165	169,165	133,561	(35,604)
Revenue over (under) expenditures	(72,665)	(72,665)	(35,352)	(33,895)
Other financing sources (uses)				
Transfers in	-	-	-	-
Net change in fund balance	(72,665)	(72,665)	(35,352)	37,313
Fund balance, beginning of year	216,591	216,591	216,591	-
Fund balance, end of year	\$ 143,926	\$ 143,926	\$ 181,239	\$ 37,313

The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Revenue, Expenditures,
and Changes in Fund Balance - Budget and Actual
Local Streets Special Revenue Fund
For the Year Ended March 31, 2006

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenue				
Property taxes	\$ 85,000	\$ 85,000	\$ 84,985	\$ (15)
Intergovernmental	36,000	36,000	36,646	646
Interest	3,000	3,000	5,278	2,278
Other	366	366	-	(366)
Total revenue	124,366	124,366	126,909	2,543
Expenditures				
Public works	174,165	160,165	110,659	49,506
Revenue over (under) expenditures	(49,799)	(35,799)	16,250	(46,963)
Other financing sources (uses)				
Transfer out	-	-	(14,000)	(14,000)
Net change in fund balance	(49,799)	(35,799)	2,250	38,049
Fund balance, beginning of year	242,481	242,481	242,481	-
Fund balance, end of year	\$ 192,682	\$ 206,682	\$ 244,731	\$ 38,049

The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Net Assets
Proprietary Funds
March 31, 2006

	Enterprise Funds - Business-type activities				Governmental Activities
	Electric Fund	Sewer Fund	Water Fund	Totals	Internal Service
Assets					
Current assets:					
Cash and cash equivalents	\$ 328,728	\$ 96,156	\$ 92,820	\$ 517,704	\$ 228,366
Accounts receivable	182,110	37,750	23,524	243,384	-
Notes receivable	-	27,620	-	27,620	-
Due from other funds	93,638	11,010	13,108	117,756	-
Inventory	109,330	7,185	30,771	147,286	-
Total current assets	713,806	179,721	160,223	1,053,750	228,366
Non-current assets:					
Restricted cash and cash equivalents	-	272,270	158,458	430,728	-
Note receivable	-	221,892	-	221,892	-
Capital assets, net	377,371	4,426,887	833,304	5,637,562	-
Land investment	5,692	-	-	5,692	-
Investment in M.S.C.P.A.	608,944	-	-	608,944	-
Total non-current assets	992,007	4,921,049	991,762	6,904,818	-
Total assets	1,705,813	5,100,770	1,151,985	7,958,568	228,366
Liabilities					
Current liabilities:					
Accounts payable	127,146	6,932	3,735	137,813	-
Accrued wages	5,597	1,141	1,174	7,912	-
Due to other funds	74,652	10,369	6,300	91,321	228,366
Interest payable	-	9,685	2,049	11,734	-
Customer deposits	63,828	-	12,091	75,919	-
Compensated absences payable	15,000	4,050	4,049	23,099	-
Current portion of long-term debt	-	45,000	30,000	75,000	-
Total current liabilities	286,223	77,177	59,398	422,798	228,366
Long-term liabilities:					
Compensated absences payable	30,192	11,810	11,811	53,813	-
Revenue bonds payable	-	2,226,000	335,000	2,561,000	-
Total liabilities	316,415	2,314,987	406,209	3,037,611	228,366
Net assets					
Invested in capital assets, net of related debt	377,371	2,155,887	468,304	3,001,562	-
Restricted	-	272,270	158,458	430,728	-
Unrestricted	1,012,027	357,626	119,014	1,488,667	-
Total net assets	\$ 1,389,398	\$ 2,785,783	\$ 745,776	\$ 4,920,957	\$ -

The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Revenue, Expenses,
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended March 31, 2006

	Enterprise Funds - Business-type Activities				Governmental Activities
	Electric Fund	Sewer Fund	Water Fund	Totals	Internal Service
Operating revenue					
Charges for services	\$ 1,796,322	\$ 348,330	\$ 237,265	\$ 2,381,917	\$ -
Operating expenses					
Operations	1,723,848	190,024	173,245	2,087,117	-
Depreciation	19,031	158,231	33,218	210,480	-
Total operating expenses	1,742,879	348,255	206,463	2,297,597	-
Operating income	53,443	75	30,802	84,320	-
Non-operating revenue (expense)					
Transfer in	14,000	-	-	14,000	-
Interest revenue	7,707	5,430	2,759	15,896	-
Interest expense	-	(102,818)	(22,307)	(125,125)	-
Total non-operating revenue (expense)	21,707	(97,388)	(19,548)	(95,229)	-
Change in net assets	75,150	(97,313)	11,254	(10,909)	-
Net assets, beginning of year	1,314,248	2,883,096	734,522	4,931,866	-
Net assets, end of year	\$ 1,389,398	\$ 2,785,783	\$ 745,776	\$ 4,920,957	\$ -

The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Cash Flows
Proprietary Funds
For the Year Ended March 31, 2006

	Enterprise Funds - Business-type Activities				Governmental Activities
	Electric Fund	Sewer Fund	Water Fund	Totals	Internal Service
Cash flows from operating activities					
Cash received from customers	\$ 1,709,356	\$ 373,143	\$ 240,179	\$ 2,322,678	\$ -
Cash payments to suppliers for goods and services	(1,469,054)	(148,714)	(108,662)	(1,726,430)	-
Cash payments to employees for services	(239,756)	(54,274)	(70,683)	(364,713)	-
Receipts for interfund services provided	-	-	-	-	44,436
Net cash provided (used) by operating activities	546	170,155	60,834	231,535	44,436
Cash flows from non-capital financing activities					
Transfer in	14,000	-	-	14,000	-
Net cash used provided (used) by non-capital financing activities	14,000	-	-	14,000	-
Cash flows capital and related financing activities					
Proceeds from land sale	32,555	-	-	32,555	-
Purchase of capital assets	(3,563)	(102,970)	(91,964)	(198,497)	-
Principal paid on bonds	-	(40,000)	(30,000)	(70,000)	-
Interest paid on bonds	-	(102,818)	(22,307)	(125,125)	-
Net cash provided (used) by capital and related financing activities	28,992	(245,788)	(144,271)	(361,067)	-
Cash flows from investing activities					
Interest received on investments	7,707	5,430	2,759	15,896	-
Net increase (decrease) in cash and cash equivalents	51,245	(70,203)	(80,678)	(99,636)	44,436
Cash and cash equivalents, beginning of year	277,483	438,629	331,956	1,048,068	183,930
Cash and cash equivalents, end of year	<u>\$ 328,728</u>	<u>\$ 368,426</u>	<u>\$ 251,278</u>	<u>\$ 948,432</u>	<u>\$ 228,366</u>
Statement of net assets classification of cash and cash equivalents					
Cash and cash equivalents	\$ 328,728	\$ 96,156	\$ 92,820	\$ 517,704	\$ 228,366
Restricted cash equivalents	-	272,270	158,458	430,728	-
	<u>\$ 328,728</u>	<u>\$ 368,426</u>	<u>\$ 251,278</u>	<u>\$ 948,432</u>	<u>\$ 228,366</u>

continued...

Village of Union City
Statement of Cash Flows
Enterprise Funds (Concluded)
For the Year Ended March 31, 2006

	Enterprise Funds - Business-type Activities				Governmental Activities
	Electric Fund	Sewer Fund	Water Fund	Totals	Internal Service
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 53,443	\$ 75	\$ 30,802	\$ 84,320	\$ -
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	19,031	158,231	33,218	210,480	-
Changes in assets and liabilities:					
Accounts receivable	(91,442)	24,813	2,236	(64,393)	-
Inventory	22,835	(3,168)	(295)	19,372	-
Due from other funds	(17,299)	(5,313)	(6,092)	(28,704)	-
Accounts payable	13,975	(4,252)	34	9,757	-
Accrued liabilities	(3,892)	(1,482)	(998)	(6,372)	-
Due to other funds	-	-	-	-	44,436
Deposits payable	4,476		678	5,154	-
Compensated absences payable	(581)	1,251	1,251	1,921	-
Net cash provided (used) by operating activities	<u>\$ 546</u>	<u>\$ 170,155</u>	<u>\$ 60,834</u>	<u>\$ 231,535</u>	<u>\$ 44,436</u>

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Union City conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

A. Reporting Entity

In accordance with the provisions of Government Accounting Standards Board (GASB) Statement No. 14, certain other governmental organizations may be considered to be part of the reporting entity for financial statement purposes. The criteria established by GASB Statement No. 14 for the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibilities and financial accountability.

In this regard, there are no other governmental organizations associated with the Village subject to the above criteria nor are there any other governmental organizations in existence.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement-based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *major streets fund* is used to account for the financial resources to be used for the expenditure of motor fuel taxes which are earmarked by law for major street and highway purposes.

The *local streets fund* is used to account for the financial resources to be used for the expenditure of motor fuel taxes which are earmarked by law for local street and highway purposes.

The government reports the following major proprietary funds:

The *electric fund* accounts for the activities of the government's electric generation and distribution system.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

The *water fund* accounts for the activities of the government's water distribution and treatment system.

The *sewer fund* accounts for the activities of the government's sewage disposal and treatment system.

Additionally, the government reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including trust or major capital projects. The *revolving loan fund* constitutes the sole nonmajor special revenue fund of the Village.

Internal service fund. These funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. This includes the compensated absences fund of the Village.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewage function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric, water and sewage enterprise funds and of the government's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

D. Assets, liabilities and net assets/equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Inventory

Inventory is valued at cost, which approximates market, using the first-in, first-out method. Inventory consists of expendable supplies held for consumption.

4. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted assets

Certain proceeds of the Enterprise Fund's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Also, certain resources have been set aside to fund capital asset replacements.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

6. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-40
Vehicles	5-25
Equipment	3-10
Infrastructure	20
Systems and plant	20-50

7. *Compensated absences*

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation, sick and personal days are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if the obligation is expected to be liquidated from expendable available financial resources.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

8. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. **Budgetary information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The governmental funds are under formal budgetary control. Budgets shown in the financial statements were prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consist only of those contained in the formal budget approved by the Village Board. Budgetary control is exercised at the functional level. Each budget amendment must have Council approval.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

B. Excess of expenditures over appropriations

Excess of expenditures over appropriations in the general and major special revenue funds are reported in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

These over expenditures were funded through the use of fund balance.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Following is a reconciliation of deposit and investment balances as of March 31, 2006:

Statement of Net Assets:

Cash and cash equivalents – Governmental activities	\$ 667,201
Cash and cash equivalents – Business-type activities	<u>948,432</u>
Total	<u>\$ 1,615,633</u>

Deposits and investments

Bank deposits:	
Checking/Savings accounts	\$ 1,462,876
Certificates of deposit (due within one year)	<u>152,757</u>
Total	<u>\$ 1,615,633</u>

Deposit and investment risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in list of authorized investments in the accounting policies. The Village's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All of the Village's deposits with fixed maturity dates (certificates of deposit) were due within one year.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the accounting policies. The Village's investment policy does not have specific limits in excess of state law on investment credit risk. At year end, the Village had no investments, and was therefore not exposed to credit risk.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year end, \$977,895 of the Village's bank balance of \$1,187,895 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the accounting policies. The Village's investment policy does not have specific limits in excess of state law on concentration of credit risk. At year end, the Village had no investments, and was therefore not exposed to concentration risk.

B. Receivables

Receivables in the governmental activities are 76 percent due from other governments, 18 percent special assessments receivable, and 6 percent other receivables. Business-type activities receivables are 49 percent of amounts due from customers and 51 percent note receivables. Special assessments receivable (governmental activities) in the amount of \$4,360 are not expected to be collected within one year of March 31, 2006.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended March 31, 2006 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 16,402	\$ -	\$ -	\$ 16,402
Capital assets, being depreciated:				
Buildings	135,200	-	-	135,200
Equipment	84,586	-	-	84,586
Vehicles	371,500	-	-	371,500
Infrastructure	1,096,626	97,679	-	1,194,305
Total capital assets being depreciated	1,687,912	97,679	-	1,785,591
Less accumulated depreciation for:				
Buildings	(40,055)	(3,905)	-	(43,960)
Equipment	(29,959)	(6,959)	-	(36,918)
Vehicles	(285,100)	(18,600)	-	(303,700)
Infrastructure	(611,394)	(59,905)	-	(671,299)
Total accumulated depreciation	(966,508)	(89,369)	-	(1,055,877)
Total capital assets being depreciated, net	721,404	8,310	-	729,714
Capital assets, net	\$ 737,806	\$ 8,310	\$ -	\$ 746,116
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 117,696	\$ -	\$ -	\$ 117,696
Capital assets, being depreciated:				
Systems and plant	7,393,120	198,497	-	7,591,617
Vehicles	163,388	-	-	163,388
Total capital assets being depreciated	7,556,508	198,497	-	7,755,005
Less accumulated depreciation for:				
Systems, plant and vehicles	(2,024,659)	(210,480)	-	(2,235,139)
Total capital assets being depreciated, net	5,531,849	(11,983)	-	5,519,866
Capital assets, net	\$ 5,649,545	\$ (11,983)	\$ -	\$ 5,637,562

Depreciation expense was charged to functions/programs of the Village as follows

Governmental activities:

General government	\$ 3,065
Public safety	24,434
Public works, including infrastructure assets	61,870
Total depreciation expense, governmental activities	\$ 89,369

Business-type activities:

Electric	\$ 19,031
Sewer	158,231
Water	33,218
Total depreciation expense, business-type activities	\$ 210,480

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

D. Payables

Payables in the governmental activities are 100 percent vendors. Business-type activities payables are 61 percent vendors, 5 percent accrued interest and 34 percent customer deposits.

E. Interfund receivables, payables and transfers

The Village reports interfund balances between many of its funds. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and proprietary funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

<u>Receivable Fund</u>	<u>Local</u> <u>Street</u>	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>	<u>Internal</u> <u>Service</u>	<u>Total</u>
General	\$ -	\$ 42,290	\$ 10,369	\$ 6,300	\$ 60,442	\$ 119,401
Major Street	-	-	-	-	26,885	26,885
Local Street	-	-	-	-	27,496	27,496
Revolving Loan	-	28,149	-	-	-	28,149
Electric	-	-	-	-	93,638	93,638
Sewer	-	945	-	-	10,065	11,010
Water	-	3,268	-	-	9,840	13,108
	<u>\$ -</u>	<u>\$ 74,652</u>	<u>\$ 10,369</u>	<u>\$ 6,300</u>	<u>\$ 228,366</u>	<u>\$ 319,687</u>

For the year ended March 31, 2006 transfers consisted of \$14,000 between the Local Street fund and the Electric fund.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

F. Investment in Michigan South Central Power Agency

The Michigan South Central Power Agency (M.S.C.P.A) was organized in 1978 under the authority of Michigan Public Act 448 of 1976, to supply electricity to member municipalities in South Central Michigan. The act provides that the agency will establish rates and charges to produce revenues sufficient to cover its costs, but may not operate for profit, except for the benefit of the public. The agency is governed by a Board of Commissioners which is comprised of one representative from each participating municipality and the general manager of the agency.

Participating municipalities and their respective shares of ownership are as follows:

	<u>Percent of Ownership</u>
City of Coldwater	40.0%
City of Hillsdale	25.5
City of Marshall	24.0
Village of Clinton	6.5
Village of Union City	<u>4.0</u>
	<u>100.0%</u>

The Village of Union City is accounting for its investment in M.S.C.P.A. as a joint venture in accordance with GASB Statement 14. Information presented below is taken from financial statements of the M.S.C.P.A. for the year ended June 30, 2005, audited by other auditors whose report dated August 12, 2005, expressed an unqualified opinion for those statements.

The Village has entered into a Power Sales Contract with M.S.C.P.A. which requires the Village to purchase all of its bulk power supply from M.S.C.P.A and to pay its share of the agency's operating and debt service costs. The Village has also entered into an agreement for services to be provided by M.S.C.P.A. in respect to substation facilities and an agreement which requires the Village to sell to the agency power generated by its facilities in certain instances.

Summary information of the Village's investment in the M.S.C.P.A. as of and for the year ended June 30, 2005, is as follows:

	<u>Total M.S.C.P.A.</u>	<u>Village of Union City Portion 4.0%</u>
Total Assets	\$ 81,830,162	\$ 3,273,207
Total Liabilities	<u>(66,606,581)</u>	<u>(2,664,263)</u>
Net Assets	<u>\$ 15,223,581</u>	<u>\$ 608,944</u>

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

	<u>Total M.S.C.P.A.</u>	<u>Village of Union City Portion 4.0%</u>
Operating revenues	\$ 38,634,773	\$ 1,545,392
Operating expenses	<u>(30,968,241)</u>	<u>(1,238,730)</u>
Operating income	7,666,532	306,662
Other income and (expenses)	<u>(5,009,063)</u>	<u>(200,363)</u>
Changes in net assets	2,657,469	106,299
Net Assets at Beginning of Year (as restated)	<u>12,566,112</u>	<u>502,645</u>
Net Assets at End of Year	<u>\$ 15,223,581</u>	<u>\$ 608,944</u>

G. Long-term debt

Revenue bonds. The government issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. No revenue bonds were issued during the current year. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Due in Fiscal Year End</u>	<u>Interest Rates</u>	<u>Amount</u>
1995 Water	2014	4.75%-6.10%	\$ 365,000
1995 Sewer	2033	4.5%	<u>2,271,000</u>
			<u>\$ 2,636,000</u>

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

Revenue bond debt service requirements to maturity are as follows:

	Water		Sewer		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 30,000	\$ 20,765	\$ 45,000	\$ 101,183	\$ 75,000	\$ 121,948
2008	30,000	19,048	45,000	100,620	75,000	119,668
2009	35,000	17,171	45,000	99,270	80,000	116,441
2010	40,000	14,985	50,000	96,345	90,000	111,330
2011	40,000	12,636	50,000	96,208	90,000	108,844
2012-2016	190,000	23,927	290,000	429,415	480,000	453,342
2017-2021	-	-	355,000	347,107	355,000	347,107
2022-2026	-	-	440,000	255,000	440,000	255,000
2027-2031	-	-	565,000	132,000	565,000	132,000
2032-2034	-	-	386,000	23,000	386,000	23,000
	<u><u>\$ 365,000</u></u>	<u><u>\$ 108,532</u></u>	<u><u>\$ 2,271,000</u></u>	<u><u>\$ 1,680,148</u></u>	<u><u>\$ 2,636,000</u></u>	<u><u>\$ 1,788,680</u></u>

Changes in Long-Term Debt. Long-term liability activity for the year ended March 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Primary Government</u>					
Governmental activities					
Compensated absences	<u>\$ 46,529</u>	<u>\$ 2,002</u>	<u>\$ -</u>	<u>\$ 48,531</u>	<u>\$ 48,531</u>
Business-type activities					
Sewer Revenue bonds	\$ 2,311,000	\$ -	\$ (40,000)	\$ 2,271,000	\$ 45,000
Water Revenue bonds	395,000	-	(30,000)	365,000	30,000
Compensated absences	<u>74,991</u>	<u>1,921</u>	<u>-</u>	<u>76,912</u>	<u>23,099</u>
	<u><u>\$ 2,780,991</u></u>	<u><u>\$ 1,921</u></u>	<u><u>\$ (70,000)</u></u>	<u><u>\$ 2,712,912</u></u>	<u><u>\$ 98,099</u></u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

H. Segment information--enterprise funds

The government issued revenue bonds to finance certain improvements to its water and sewer distribution and treatment systems. Because the Electric, Sewer and Water Funds, which are individual funds that account entirely for the government's electric services, water distribution and treatment and sewage disposal and treatment activities, are segments and are reported as major funds in the fund financial statements, segment disclosures herein are not required.

I. Pension plan

The Village maintains a defined contribution pension plan called the Village of Union City Public Employees' Retirement Trust, which is administered by two public retirement plan administrators for substantially all employees. The employees must have attained 21 years of age and completed one year of service to become a participant in the plan. An employee is fully vested after six years of service. No employee contributions are required or can be made to the plan. The Village Council is authorized to amend benefit provisions and contribution requirements.

The Village is required to make annual contributions to the Village Employee's Pension Trust based on the percentage within the employee group's contracts.

Contributions made to the plan for the year ended March 31, 2006, amounted to \$35,210. The following is a schedule of the contributions by fund:

General Fund	\$ 11,129
Major Street Fund	2,459
Local Street Fund	2,459
Electric Fund	12,007
Sewer Fund	3,578
Water Fund	<u>3,578</u>
Total	<u>\$ 35,210</u>

IV. OTHER INFORMATION

A. Risk management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended March 31, 2006, the Village carried commercial insurance to cover all risks of losses. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

B. Property taxes

The Village property tax is levied each July 1 on the assessed valuation of property located in the Village as of the preceding December 31, the lien date. Real and personal property in the Village for the 2005 levy had a taxable value of \$21,019,762 representing approximately 50 percent of the estimated true cash value, as assessed by the County. The Village's general operating tax rate for fiscal year 2005-06 was 9.9972 mills and 3.9897 mills for the Village Roads.

C. Commitments and contingencies

The Village participates in a number of federal and state assisted grant programs. These programs are subject to program compliance audits. Accordingly, the Village's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Village expects such amounts, if any, to be immaterial.

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



June 23, 2006

Village of Union City
208 North Broadway
Union City, Michigan

We have audited the financial statements of the Village of Union City for the year ended March 31, 2006, and have issued our report thereon dated June 23, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated January 20, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Village of Union City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Union City are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Village of Union City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Village of Union City's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Village of Union City, either individually or in the aggregate, indicate matters that could have a significant effect on the Village of Union City's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village of Union City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Village Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehman Johnson", is written over a horizontal line.

VILLAGE OF UNION CITY, MICHIGAN

Accounting Memorandum

For the Year Ended March 31, 2006

During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated June 23, 2006, on the financial statements of The Village of Union City.

Internal Control Review

As with other governments the size of the Village, segregation of duties is often difficult to implement. However, there are methods of segregating duties sufficiently to enhance the internal controls to an acceptable level. We noted that the Office Manager is responsible for general ledger maintenance, deposits of Village receipts to the bank, signing of the checks, and the bank reconciliation preparation.

We recommend that another individual review the bank reconciliations for completeness in order to enhance the internal controls in this area. This would include verifying the information on the check registers and verifying the accuracy of the outstanding check listing and any deposits in transit

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